

# **Agri-Input Market Development in Azerbaijan**

**Interim Report May – July 2002**

**Submitted to**

**United States Agency for International Development (USAID)**

**by**

**IFDC**

***An International Center for Soil Fertility and Agricultural Development***

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## Abbreviations

ACDI/VOCA	Agricultural Cooperative Development International / Volunteers Overseas Cooperative Association
AMDA	Agri-Input Market Development Project in Azerbaijan
Excom	Executive Commission District Authority
FAO	Food and Agriculture Organization
IFDC	An International Center for Soil Fertility and Agricultural Development
LoL	Land O' Lakes
mt	Metric tons
TSP	Triple superphosphate
SSP	Single superphosphate
STC	Short-term consultant
USAID	United States Agency for International Development

## Executive Summary

The AMDA project began in February 2002 and is now fully operational. Because USAID expedited approval of the project, IFDC was able to initiate activities in time for the spring planting season. This has resulted in two major advantages: early field demonstrations and early assessment of agro-input markets in operation.

This interim report covers the period May to July 2002 and demonstrates the progress underway in setting the foundation for an improved agro-input distribution system in Azerbaijan. A few of the highlights, achievements, and milestones include:

- Project fully staffed and operational.
- Project staff has developed 5 handouts and 3 training courses for dealers, including:
  - Comparison of phosphate fertilizer available (training course and handout).
  - Explanation on the calculation of gross margin (training course).
  - Information on how to get access to credit (training course with CredAgro).
  - How to take a soil sample (500 copies).
  - General use of NPK fertilizer (500 copies).
  - General practices of wheat growing (500 copies).
  - Pesticides in wheat (booklet 500 copies).
  - Agronomic potential of 11 selected wheat varieties (500 copies).
- Two technical leaflets were printed (soil sample and general fertilizer use) and distributed via dealers to farmers.
- Ninety dealers and 32 additional participants attended 12 project meetings.
  - A database was created with information on the dealer and their company.
- The project celebrated an open field day where they showed the results of the tomato demonstration in Jalilabad.
  - The field day was broadcast two times on local TV in the areas of Jalilabad, Masalli, and Lenkeran.
- The project started a demonstration plot for apples in Guba; results will be disseminated in the fall.
- The project is collaborating with ACDI/VOCA on credit and financing issues for dealers.
- The project has signed a Memorandum of Understanding with Land O' Lakes (LoL) for specialized group work.
- The project located a supply of triple superphosphate (TSP) in the country. The benefits of using this product were promoted to more than 60 dealers at local meetings.

## **Introduction**

*For consistency and ease of understanding, the Agri-input Market Development in Azerbaijan (AMDA) project's quarterly reporting schedule is being altered in order to correspond with the workplan, submitted to the United States Agency for International Development (USAID) in April 2002. This is an interim report to update USAID on the AMDA project prior to the submission of the 2<sup>nd</sup> quarterly report (July – September). With the submission of this report, all future quarterly reports will correspond with the yearly workplan.*

*In addition to operational and strategic issues, progress is reported for each of the four program areas (business development and training; access to credit and finance; association building and development; and technical training, transfer, and extension services).*

### **1 Operations**

Under operations, the project has achieved the following milestones:

- Developed a list of short-term consultants (STCs).
- Developed a schedule of STCs that will be used in Year 1.
- Made contacts with various agricultural projects supported by other donors and information continues to be exchanged.
- Developed a draft report on cost sharing and the method of calculation (included in the appendix of this report).
- Continuously train local staff via weekly meetings and workshops.
- Project registration is still underway. Even with the essential support we have received from USAID's Baku office, the Azerbaijan Ministry of Justice still has not signed the documents nor have they given any reason for the delay.

### **2 Strategic Issues**

Approximately 20% of the farming population can be considered as market-oriented commercial cash crop producers. This group of farmers is the indirect target market for the project. Farmers, as a whole, have shown a great need and desire for information on production practices and input product knowledge. The agricultural input dealers, in conjunction with private and public extension agents, can play a primary role in this respect. Farmers not only want to purchase a product; they also want to know how to apply the product, which product to use for a certain

disease, which effects a product has, etc . By providing information next to the product, the dealer is able to build customer loyalty that counters the lower prices illegal traders are offering. Implicitly, turnover will increase; and thus, dealers will realize that information carries an economic value.

As a first step, the project has decided to develop and distribute information for dealers based either on questions frequently asked by farmers to dealers or observations made by the project. This information, called the “product package,” is introduced to dealers at regular meetings each month. Such meetings, until now, have been open for all dealers. Future meetings will be restricted to selected, active dealers willing to network with their colleagues. This will eventually result in establishing the agribusiness trade association.

Four product packages have been developed: (a) soil sampling, (b) general fertilizer use, (c) gross margin calculation, and (d) access to credit. In addition to oral presentations, technical brochures and leaflets are published and distributed to dealers. These dealers are then distributing this information to their farmer customers.

### **3 Highlights of Project Achievements**

**Business Development and Training:** During the reporting period, 12 meetings were held with dealers in the regions of (a) Masalli, Jalilabad, Lenkeran; (b) Guba, Kachmaz; (c) Ismailli, Sheki, Zagatalla; and (d) Ganja, Geranboy. From these meetings, the project has started collecting baseline data on 90 individual traders of agricultural inputs.

The project staff established contacts with the three major agri-input companies in Azerbaijan: AgroKemija, EMA, and Tovus Baltiya. AgroKemija is a state-owned enterprise that does not have the resources nor reputation with which to foster a business relationship. EMA in Baku and Tovus Baltiya each carry unique strengths in regards to inputs. A case-by- case collaboration among these companies will be developed as needed.

JECOT Company in Azerbaijan purchased 6,000 metric tons of triple superphosphate (TSP) three years ago. Upon analysis, we determined that this TSP has a 47% active matter. Alternatives on the market are: 6-year-old single superphosphate (SSP) from Sumgayit (12% active matter) or 15-year-old SSP from Lenkeran (2.5% active matter). The project highly discourages the use of SSP from Sumgayit and Lenkeran and is promoting the benefits of the

TSP. During all meetings, dealers were told where and how to purchase TSP. A technical recommendation leaflet was prepared to show the superiority of TSP vis-à-vis old stock SSP.

A list of fertilizer producers and distributors in Russia, Georgia, and Iran was prepared and made available to dealers.

**Credit and Finance:** In the last three months, 37 private banks and financing agencies have been visited. Ten of those 37 banks expressed their interest in providing loans to the agricultural sector. The average loan amount provided is \$100,000 with a repayment period of 12 months. Interest rates range between 24% to 36% per annum. Almost all the banks require collateral in Baku as a prerequisite.

Out of the banks and financing agencies visited, a close collaboration with CredAgro was developed. CredAgro is supported by ACDI/VOCA and is USAID financed. The preferable choice for using CredAgro is based on: (a) local office representation in the AMDA project region, (b) credit experience in the agricultural sector, (c) credit conditions that are acceptable for dealers and (d) CredAgro are expanding their activities and are open for cooperation. However, if a dealer is interested in receiving information on other credit institutions, contacts are provided; and the necessary support is given.

In the three southern districts (Masalli, Jalilabad, Lenkeran) the respective CredAgro Officers were invited to present their credit package to the dealers during regional seminars. This effort was highly appreciated by the dealers and resulted in four credit application requests for inputs and 11 for agricultural production.

**Association Building and Development:** The first crucial stage in building an association is gaining the trust of the dealers and identifying the active market participants. Identification of entrepreneurs and key individuals (which resulted in a dealers' database) was the key first step in the process. The dealers are classified according to importers, wholesalers, and retailers.

Dealers are showing a high interest in learning more about best farmer practice since many of their farmer clients forward questions in this respect. As mentioned in the Strategic Issues section, the project is developing "product packages" to address this interest and increase the dealer's knowledge about agriculture and production and the inputs they sell (fertilizer, seeds, and pesticides). The information provided to the dealers allows them to get a better picture of

their input stocks and their customer's needs. This information, combined with building blocks of a dealer network where information is shared, will create the impetus for a trade association.

**Technical Training, Transfer, and Extension Service:** Project staff evaluated commonly applied cropping patterns by conducting discussions with dealers and farmers. The aim was to identify the field techniques used, such as soil preparation, seed rate, seed disinfestations, level of herbicide and fertilizer used, etc. The results show the poor farming practices applied by farmers and indicate the urgent need for sound agricultural practices. Consequently, best farming practices have been, and will be emphasized, highlighting the potential improvement and increase in productivity that can be achieved. Technical brochures and leaflets on best practices are being written by AMDA and distributed to dealers.

Samples of existing phosphate fertilizers in Azerbaijan were tested in local and international laboratories to provide recommendations to dealers. The analysis shows that the use of phosphate fertilizer (SSP) from Sumgayit and Lenkeran should not be encouraged. The main reason for this is due to their low percentage of active matter (12% and 2.5% versus a supposed 18%) and possibly high content of heavy metal, like cadmium. Excessive amounts of up to 3 tons/ha of SSP are being applied, which results in contamination of soil and could finally lead to residues in the crops planted. \*\*This could be an issue for an environmental oriented NGO to further investigate. Through training programs, the project is showing dealers how much money they can save by comparing the purchase price per hectare of the TSP with 47% active matter versus the SSP with only a 12% or 2.5% active matter.

Two demonstrations were conducted during this period. In Guba, a demonstration plot was set up for apple production. Results of the apple demonstration will be compiled and disseminated in the fall. In Masalli, a demonstration plot was prepared using open field tomatoes. During the May – June period in the southern parts of Azerbaijan, heavy rainfalls caused damage with an estimated value of US \$1.5 million, thus 40% of the tomato seedlings had to be replanted. The technical evaluation is presently under review; however, preliminary indications show that positive results were achieved. These results were explained on an open field day at the demo site to 40 participants. This meeting was broadcast by local TV in the regions of Lenkeran, Masalli, and Jalilabad.

Two locations for wheat demonstration plots for the autumn season were selected and local supervisors have been contracted to document the proceedings.

Leaflets for “Soil Testing” and “Fertilizer and Their Effective Use” were prepared and distributed to interested dealers. Technical information on pesticides to apply in flower production, against Red Spot in apples and Erwinia bacteria in potatoes were also made available. Leaflets and technical brochures are developed according to the number of requests received from the dealers. This is done with the aim that dealers learn to understand the value of information

#### **4 Leveraged Support and Cooperation**

##### **Examples of coordination and leveraging include:**

- Working with CredAgro and ACDI/VOCA in educating dealers on how to use and obtain credit and the importance of the business plan.
- Signed a Memorandum of Understanding with LoL for specialized group work.

#### **5 Pending Issues and Future Activities**

1. Project staff will begin holding individual meetings with dealers who are interested in applying for credit.
2. In order to start demonstrations and trials for wheat varieties, the project will finalize logistics (purchase of seeds, fertilizer, agreements with dealers and farmers, etc.) and implement the demonstration plots.
3. STC on best growing practices for wheat;  
STC for marketing of fertilizer;  
STC for establishing associations.
4. Project staff will introduce concepts and techniques of private sector extension.
5. The project will expand their use of media and use regional and national TV stations as well as farmers’ magazines to market the product packages.
6. The project will strengthen the emphasis on the development of business plans and marketing education for individual dealers.
7. The project will track and record information on purchases of inputs for the country.
8. AMDA will publish leaflets, brochures, and booklets on: wheat production, potato production; diseases in wheat and how to fight them; and fertilizer use (NPK).
9. Staff will further establish relationships between dealers and accredited importers of inputs.
10. Project will set up the initial preparations for a study tour in either Turkey or Russia.
11. The team will identify other projects and NGOs where they can collaborate on the supply of inputs (i.e., a dealer can provide seeds to other project clients).



12. Project management will further evaluate staff and propose advanced training programs for them.

Appendix 1

**Table of Meetings held with Agri-Input Dealers**

<b>Title</b>	<b>Venue/Date</b>	<b>No.</b>	<b>Participants</b>	<b>Topics</b>
Dealer Meeting	Sheki, 14.05.02	7	Dealers and ABC Consulting	Project introduction, wheat: fertilizer and pesticide use
Dealer Meeting	Ismailli, 14.05.02	8	Dealers and ABC Consulting	Project introduction, wheat: fertilizer and pesticide use
Dealer Meeting	Ganja, 15.05.02	7	Dealers, agricultural projects and institutions	Project introduction, fertilizer use
Dealer Meeting	Jalilabad, 05.06.02	8	Dealers	Potato growing technology, fertilizer and pesticide use; marketing
Dealer Meeting	Masalli, 05.06.02	6	Dealers	Project introduction, fertilizer and pesticide use
Dealer Meeting	Guba, 13.06.02	7	Dealers	Project introduction, fertilizer use
Dealer Meeting	Ismailli, 19.06.02	6	Dealers	Fertilizer and pesticide use
Fertilizer Supplier	Agdash, Goranboy, 02.07.02	3	Fertilizer Supplier	Local sources of Phosphate
Dealer Meeting	Lenkeran, 09.07.02	7	Dealers	Project introduction, fertilizer and pesticide use
LoL Association	Zaqatalla, 17.07.02	9	Hazelnut and Livestock Association	Memorandum for future collaboration
Field Day Tomato	Jalilabad, 26.07.02	34	22 dealers, 7 Excom, 5 Private Consultants	Explanation Field Demonstration
Credit Access	Masalli, 31.07.02	20	17 dealers, 3 CredAgro	Explaining access to credit
<b>Total</b>		<b>122</b>		

## Appendix 2

### Contact List

#### **USAID Partners**

Jeffrey Cornish  
Margarita Petrova Uchrdzhieva  
James P. Tjepkema  
Robert Turner  
Ronan Ryan  
Eldar Jafarov

World Learning, Country Director  
Land O' Lakes, Dairy Specialist  
ACDI/VOCA, Volunteer  
ACDI/VOVA, Farmer to Farmer Program  
ACDI/VOCA, Credit Project Manager  
ACDI/VOCA, Chief Loan Officer

#### **Other Donors**

Behram Ahmedov  
Charles Boyer  
Dr. Ebrhard Sawitzki  
Prof. Dr. Herbert Stroebel  
Marcel Schwickert  
Stuart Patton  
Michael Hackenbruch  
Marc Graille  
Hindri Kuipers  
George Varughese  
Rufiz Chiragzade

IFAD Project  
World Bank/Cymmit Project  
GTZ, Privatization Advisor  
GTZ, Agricultural Education  
GTZ, Coordinator Private Sector Development  
EuropeAid, Rural Investment Foundation  
BP, Manager Community Development  
EU Tacis, Traceca Coordinator Caucasus  
DGIS, Senior Livestock Specialist  
Cymmit/World Bank, Crop Specialist  
World Bank, Operations Officer

#### **NGO and Local Organizations**

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Siddiga Rza gizi Mammadova  
Rustam Rustamov  
Arif Gahangirov  
Faik Nadirov  
Wahid Jemai

Guba Agrarian Center, Director  
Research Institute Plant Protection, Director  
National Aerospace Agency, Acting Director  
Ganja Business Group, Deputy Director  
Agro Meslehet, Executive Director  
Jecot S.A., International Trade of Raw Cotton and other Cotton Products

James F. Lawrence  
  
Huseyn Abdulkерim  
Rafiq Karimov  
Jonelle Glosch

Office of the President's Special Representative for Global Humanitarian Demining  
Siyezen Broiler Company, Director  
Information Department AzTV, Journalist  
AMCHAM, Executive Director

#### **Ministries**

Sadigov Gurban

Cabinet of Ministers, Acting Chief of Department for Problems of Refugees, IDPs and Migration

**DRAFT REPORT**

on

**Cost Sharing of AMDA – Azerbaijan**

**February to July 2002**

**USAID Cooperative Agreement**

**112-A-00-02-00005-00**

Submitted to USAID, Baku

By

IFDC

An International Center for Soil Fertility and Agricultural Development

August 2002

## **A Background**

The United States Agency for International Development (USAID) awarded a US\$ 3.1 million Cooperative Agreement Project on January 30, 2002, to the International Center for Soil Fertility and Agricultural Development (IFDC). The three-year project is designed to advance USAID Strategic Objective 3.1 – Accelerated Development and Growth of Private Small and Medium Enterprises – in the targeted regions of Masalli, Guba, Ganja, and Sheki of Azerbaijan. Activities and results of the project directly support the strategic objective and aim to contribute to future market-based development.

The project will improve the availability of modern agricultural inputs and thereby increase agricultural productivity. There is a great nominal demand from dealers and farmers to establish a reliable source and supply of such inputs and the technology they embody. By expanding the use of appropriate technologies added value in production, processing, and marketing will increase. The “Agri-Input Market Development in Azerbaijan (AMDA)” project is in the process of setting up an agro-input network, including a respective trade association. The final aim of the project is to establish a functional network of dealers qualified to react to demands from the private agricultural sector.

The project strategy is to enhance the skills and entrepreneurial abilities of dealers and traders so they become competent partners in the agricultural sector. Through this strategy, strong linkages will be created between dealers, suppliers, farmers, and public authorities to foster the development of a commercial agricultural production system.

The cost sharing contributions are a critical factor in ensuring the sustainability of the dealer network and the trade association.

Cost sharing comprises the following:

- ⇒ Direct cost share contributions like association dues and payment for services such as trade missions and other fees deriving from common purchases of goods, etc.
- ⇒ Indirect contributions by association members including the value of a fair hourly rate of time the association members and leaders spend in board and other meetings.
- ⇒ Imputed values of time farmers attend at field demonstrations, advisory meetings, and extension oriented meetings and seminars.
- ⇒ Credit and finance obtained with the assistance of the project from international and local financial institutions.
- ⇒ Investments undertaken by informal group and association members.
- ⇒ Financial and material grants received by client groups and individual members.
- ⇒ Value of media coverage.

## **B Methodology Of Calculation Of Cost Sharing**

The calculations are based on regular records for the activities kept by each project unit. The contributions are divided into direct and indirect sharing.

1. Association meetings/member visits. The number of meetings and the attendees of the groups and associations are converted into workhours. The Association Development Unit records the number of participants in each meeting. Rates used for the calculation are: importers, enterprise managers at 15 US\$/hour and group/association members at 5 US \$/hour.
2. Field days advisory meetings. The number of field days and group and association members visiting the demonstrations are converted into workhours. The rate/hours used for farmer attendance is 1 US \$/hours and the rate for other attendees 3 US \$/hour.
3. Seminar attendance/business counseling. The number of meetings and the attendees of the groups and associations are converted into workhours. External business counseling (other donor projects and financial institutions) is set at 50 US \$/hour. The rate for local experts is calculated at 10 US \$/hour.
4. International representatives from supply companies presenting product information at meetings are rated at 200 US\$/hour.
5. Transportation: a rate of 5 US \$ per round trip is calculated for the attendees of meetings.
6. Trade missions/study tours/dues. This is a direct contribution of association members to their association fund. The contribution for each study tour or trade mission amounts to 100 US \$/person. The dues contribution is categorized as follows: e.g., importers / wholesalers / retailers 50 US \$/year; distributors / affiliate members 25 US \$/year; progressive farmers / commercial producers 20 US \$/year. This contribution structure still has to be approved by the board of the groups and associations.
7. Media contributions: TV coverage at 50 US \$/per each 2 minutes broadcasting at regional level and 150 US \$ at national level; radio 20 US \$/per each 2 minutes broadcasting, articles in newspapers at 50 US \$/per article.
8. Credit: number and amount of credit obtained for group and association members.
9. Grants: contributions in cash and kind to groups and associations.
10. Investments of group and association members. Amount of financial and kind investments undertaken by individuals and/or groups and associations.

**Value of cost sharing in US Dollars, 2002**

<b>No.</b>	<b>Activity</b>	<b>Feb.</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>August</b>	<b>Sep.</b>	<b>Oct.</b>	<b>Nov.</b>	<b>Dec.</b>
1	Association meetings/ member visits				502.50	198.00	610.00					
2	Field days/advisory visits	400.00					682.00					
3	Seminar/ business counseling											
4	International supplier presentation											
5	Transportation											
6	Trade missions/study tours											
7	Media coverage						400.00					
8	Credit obtained											
9	Grants obtained											
10	Investment by dealers											
11	Membership registration dues											
	<b>Total US \$ Month</b>	<b>400.00</b>			<b>502.50</b>	<b>198.00</b>	<b>1,692.00</b>					
	<b>Grand Total US \$</b>											

Calculation for Cost Sharing Contribution, May to July 2002

	Amount	Total
<b>February, 2002</b>		
Guba: Demo plot plus own labor and soil preparation	200.00	
Jalilabad: Demo plot plus own labor and soil preparation	200.00	400.00
<b>04.05.02, Sheki, Dealer Meeting</b>		
5 Dealer (1.5 hrs x 5 \$ + 5 \$)	62.50	
2 ABC Consultants (1.5 hrs x 10 + 5)	40.00	102.50
<b>14.05.02, Ismaili, Dealer Meeting</b>		
5 Dealers (1.5 x 5 + 5)	62.50	
3 ABC Consultants (1,5 x 10 + 5)	60.00	122.50
<b>15.05.02, Ganja, Dealer Meeting</b>		
5 Dealers (1.5 x 5 + 5)	62.50	
2 Ganja Business Group (1.5 x 10 + 5)	40.00	
6 Agricultural Institutes (1.5 x 10 + 5)	120.00	
1 ACDI/VOCA (1 x 50 + 5)	55.00	277.50
<b>05.06.02, Masalli, Dealer Meeting</b>		
5 Dealers (1.5 x 5 + 5)	62.50	
1 Farmer (1.5 x 3 + 5)	9.50	73.00
<b>05.06.02, Jalilabad, Dealer Meeting</b>		
5 Dealers (1.5 x 5 + 5)	62.50	62.50
<b>13.06.02, Guba, Dealer Meeting</b>		
5 Dealers (1.5 x 5 + 5)	62.50	62.50
<b>09.07.02, Lenkeran, Dealer Meeting</b>		
6 Dealers (1.5 x 5 + 5)	75.00	75.00
<b>17.07.02, Zagatalla, LoL Association Support</b>		
5 Members (2 x 5 + 5)	75.00	
2 Association Presidents (2 x 10 + 5)	50	
2 Vice-Presidents (2 x 10 + 5)	50	175.00
<b>26.07.02, Jalilabad, Field Demonstration</b>		
27 Dealers (2 x 3 + 5)	297.00	
2 ABC Consultants (2 x 15 + 5)	70.00	
3 Agro Meslehet Consultants (2 x 15 + 5)	105.00	
6 District Executive Committee (2 x 15 + 5)	210.00	
Local TV broadcasting, 10 min (2 min at 50 \$)	250.00	932.00
<b>31.07.02, Masalli, Credit Access + TV</b>		
17 Dealers (2 x 5 + 5)	255.00	
3 CredAgro (2 x 15 + 5)	105.00	
local TV broadcasting, 6 min (2 min at 50 \$)	150.00	510.00
<b>Grand Total</b>		<b>2,792.50</b>